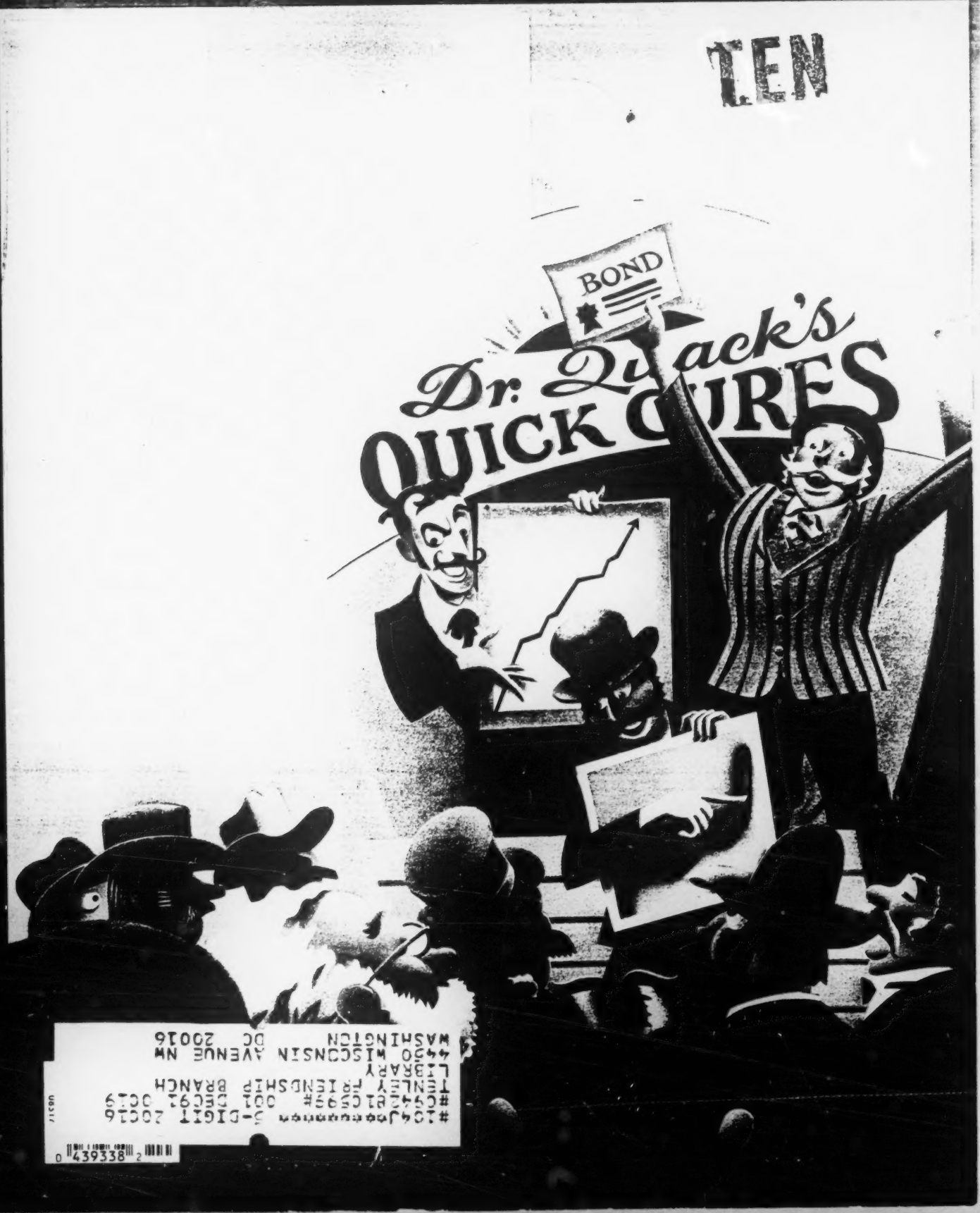
Lessons from the Gulf: Saddam's ineffectual French weapons

General Motors: Beneath the red ink, progress

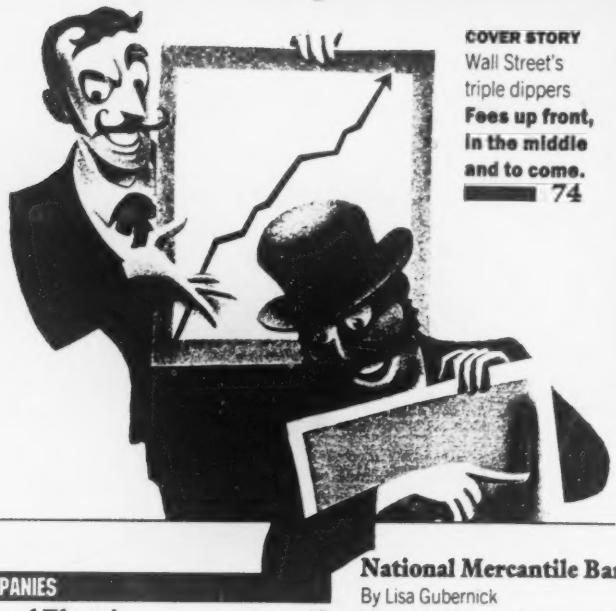
Investors beware: Stocks with endangered dividends



#104JDDDDDDDDD 3-DIGIT 20016
#C942B1C999# 001 DEC91 0C19
TENLEY FRIENDSHIP BRANCH
LIBRARY
4450 WISCONSIN AVENUE NW
WASHINGTON DC 20016

0 439338 2

Forbes
MARCH 4, 1991 VOLUME 147 NUMBER 5



COVER STORY
Wall Street's triple dippers
Fees up front, in the middle and to come. 74

Beirut is rebuilding
Out of the rubble, back in fashion. 48

COMPANIES

General Electric 40
By John H. Taylor
Will it get in deeper with NBC, or get out of the entertainment industry?

PacTel Corp. 42
By Fleming Meeks
Betting on cable television.

Adolph Coors Co. 52
By Claire Poole
Peter Coors has revitalized the company and now has Miller in his sights.

Norwest Corp. 62
By Steve Weiner
A bank in rock-solid shape.

ON THE COVER
General Motors 84
By Jerry Flint
Making progress, despite red ink, in a year for living dangerously.

Kaiser-Francis Oil Co. 88
By William P. Barrett
Oilman George Kaiser knows what he is doing busting into banking.

Blount Inc. 94
By William P. Barrett
To rescue his construction business, Red Blount wisely turned outside.

TRW Inc. 97
By Marcia Berss
It's bigger, but Morton International is ahead in auto airbags. So far.

National Mercantile Bancorp 106
By Lisa Gubernick
Top Hollywood types bought into a bank. Movies would have been better.

UP & COMERS

Music video wars 68
By Peter Newcomb
Upstart Video Jukebox Network wants a piece of the pop music video action. Also: Sioux Manufacturing.

INTERNATIONAL

ON THE COVER
It couldn't have happened to a nicer guy 38
By Peter Fuhrman
Good thing French arms don't come with money-back guarantees.

The new face of Spain 43
By John Marcom Jr.
Javier de la Rosa made his fortune investing Kuwaiti petrodollars. Now he's branching out.

Rebuild, rebuild 48
By Roula Khalaf
The way the Lebanese are putting their country back together is a triumph of the human spirit.

Steamroller 60
By Andrew Tanzer
Korea's rush into petrochemicals is bad news for U.S. exports.

INVESTING

ON THE COVER
Step right up, folks 74
By Laura Jereski and Jason Zweig
Like oldtime medicine men, today's financiers peddle quack cures.

ON THE COVER
Dr. Feelgood 78
By Matthew Schifrin and Jason Zweig
Rothschild's Wilbur Ross, fixer of companies, overdosed on debt.

A dinner with Liz Taylor 113
By Lisa Gubernick with Julie Schlax
They snickered when fertilizer magnate Arnon Milchan started investing in movies. No longer.

Money Men: Bank bulls 114
By William Tucker
Two analysts say some banks are good buys now.

The Funds: Small caps reawaken 146
By Richard L. Stern
Strength in small-company stocks could be good news for Acorn Fund.

ON THE COVER
Statistical Spotlight: Endangered dividends 147
By Timothy Dodman and Gilbert Steedley
How long can a dividend last when a company burns up cash too fast?

STREETWALKER

Short squeeze; earnings visibility; Barnett Banks; Stanley Works. 156

Norwest's Lloyd Johnson
Thinking small, making money.
62

Polyester fever
Staying alive in the battle with cotton.
102

Forgotten Hawaii
Molokai used to be for lepers only.
172

GOVERNMENT

A Federal Reserve for oil 86
By James Cook
The unsung heroes who run the Strategic Petroleum Reserve.

Rain from heaven 90
By James Cook
The Clean Air Act means big gains for coal-carrying railroads. Also: New technology, the war and changes in Eastern Europe may help coal.

NUMBERS GAME

"We haven't taken their money" 109
By Dana Wechsler Linden
Should a company in financial trouble use its employee thrift plan to buy its own stock?

TAXING MATTERS

The mouse that wants to roar 100
By Patrice Duggan
A bizarre loophole could allow Gibraltar to become a financial center.

MARKETING

Fiber fever 102
By Joshua Levine
The folks who brought you leisure suits say polyester is chic.

COMPUTERS/COMMUNICATIONS

Wait and save 118
By David Churbuck
The $39,500 price for a picture phone is coming down rapidly. Also: Much of chips' value is in the packaging; Can dinosaurs adapt?; Commentary by Esther Dyson.

SCIENCE & TECHNOLOGY

Regulating the regulators 126
By Reed Abelson
Upjohn's supposed blockbuster is a modest success for other drug firms. Also: Saving old books; Commentary by Michael Gianturco.

PERSONAL AFFAIRS/CAREERS

Forgotten Hawaii 132
By Ellen Paris
Molokai—mostly overlooked. Also: Collecting antique motorcycles.

Often down but never out 138
By Christopher Palmeri
John De Joria created an environment suited to his peculiar talents.

MONEY & INVESTMENTS

What's Ahead For Business 35
The Forbes Index 36
The Forbes Wall Street Review 143
The Forbes/Investor's Daily Industry Review 144

DEPARTMENTS

Side Lines 8
Follow-Through 10
Forbes Informer 16
Readers Say 20
Fact and Comment 23
Other Comments 28
Commentary 33
Flashbacks 159
Thoughts 160

FACES BEHIND THE FIGURES

Chung Se-yung 140
Hyundai Group
Andrew Barrett 140
Federal Communications Commission
Davey Johnson 141
Celebrity Resorts Inc.
Frederick Rockwood 141
Forethought Group

COLUMNISTS

The Larger Context 58
Michael Novak
Capital Markets 149
Ben Weberman
The Contrarian 150
David Dreman
Property Strategy 151
Charles E. Babin
Financial Strategy 152
A. Gary Shilling
Financial Strategy 153
Alan Reynolds

EDITORIAL INDEX IS ON PAGE 6

Cover illustration by Gary Hallgren

Forbes

March 4, 1991
Volume 147 Number 5
Forbes (ISSN 0015 6914) is published biweekly except weekly during two weeks in October, by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at New York, N.Y. and at additional mailing offices. Canadian second-class postage paid, permit number 9490. GST # R125769513. Subscription $52 a year, U.S.A. Postmaster: Send address changes to Forbes, 60 Fifth Ave., New York, N.Y. 10011. Copyright © 1991 Forbes Inc. Title is protected through a trademark registration in the U.S. Patent Office.

Forbes does not supply back issues or copies of individual articles. Requests for permission to reprint should be sent to the Permissions and Reprints Department at Forbes. Forbes is indexed in major periodical indexes and can be located in bound copy or microform in major libraries. The full text is available electronically on major database systems.

Where necessary, permission is granted by the copyright owner for those registered with the Copyright Clearance Center (CCC), 27 Congress St., Salem, Mass. 01970 to photocopy articles owned by Forbes for a flat fee of $1.50 per copy per article. Send payment to the CCC stating the ISSN (0015 6914), volume and first and last page number of each article copied. Copying for other than personal use or internal reference, or of articles or columns not owned by Forbes without express permission of Forbes or the copyright owner is expressly prohibited.

INDEX OF COMPANIES COVERED IN NEWS STORIES AND BY THE COLUMNISTS IN THIS ISSUE. EACH REFERENCE IS TO THE FIRST PAGE OF THE STORY IN WHICH THE COMPANY NAME APPEARS.

A, B

Ace, 134
Acorn Fund, 146
Aérospatiale, 38
Akzo, 128
Alcoa, 156
Allegheny International, 78
Allen Financial Advisors, 109
American Home Products, 78
American Television and Communications, 40
Ameritech, 42
Amgen, 129
Anheuser-Busch, 43, 52
Apple Computer, 124, 129, 144, 150
AT&T, 118, 119
Bain, 10
Baltica Group, 100
BancOklahoma, 88
Bank of America, 62
Bank of New England, 78, 114, 152
BankAmerica, 114
Bankers Trust New York, 21
Barclays, 100
Barnett Banks, 150, 156
Bayerische Hypotheken Bank, 113
Bell Atlantic, 42
BellSouth, 42
Berkshire Hathaway, 146
Berliner Bank, 113
Birmingham Steel, 156
Black & Decker, 109
Blount, 94
BMC Software, 143
Boeing, 156
Booz, Allen & Hamilton, 10, 60
Borland International, 129
BP, 60
British Aerospace, 38
British Airways, 16
Brough, 134
Brown Brothers Harriman, 156
Brunswick, 70, 151
Burlington Northern, 90

C, D

Cablevision, 42
Cablevision Systems, 40
Cadbury Schweppes, 16
Campeau (Bloomingdale's), 102
Canal Plus, 113
Capital Cities/ABC, 40
Capitol Industries-EMI, 68
Carnival Cruise Lines, 146
Carolco Pictures, 113
Castle & Cooke (Dole Food), 132
Caterpillar, 146
CBS, 40
Celebrity Resorts, 141
Charles River Associates, 86
Chase Manhattan, 10
Chemical Banking, 106
Chicago & North Western, 90
Christie's, 17
Chrysler, 84, 97, 147
Ciba-Geigy, 113
CIS Technologies, 129
Citicorp, 62, 147
City National Bank, 106
CNA Financial, 74
Coca-Cola, 16
Code-A-Phone, 118
Comdisco, 156
Communications Equity Associates, 68
Compaq Computer, 129, 150
Compression Labs, 118
Computer Associates, 14
Computer Task Group, 156
Conrail, 90
Continental Airlines Holdings (Eastern Air Lines), 78
Adolph Coors, 52
Cotton Incorporated, 102
Creative Artists Agency, 106
CS First Boston, 74
CSX, 90
Cyclone, 134
Cypress Semiconductor, 119
Daelim Industrial, 60
Daimler-Benz, 43
Dassault Aviation, 38
Walt Disney, 40, 43
Dow Chemical, 60
Drexel Burnham Lambert, 74, 78
Du Pont, 70, 102, 113, 159
Dun & Bradstreet, 151

E, F

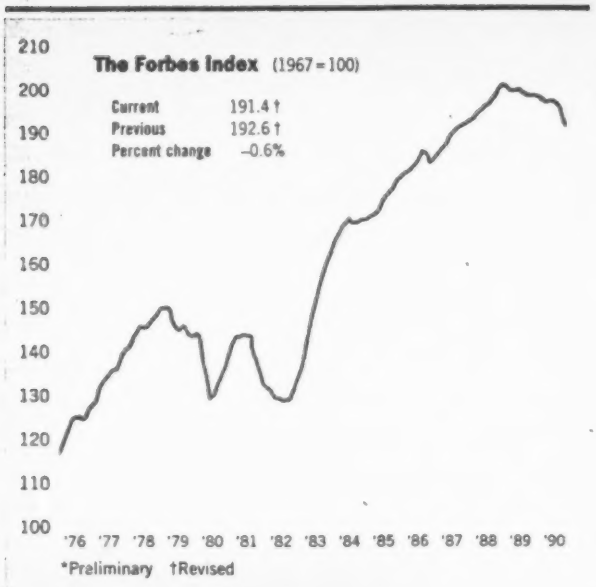
Eastland Bank, 152
Eaton, 151
Edison Brothers, 146
Elxsi, 119
Emerson Electric, 150
Energy Service, 144
Entertainment Weekly, 20
Equitable Life Assurance (Donaldson, Lufkin & Jenrette), 74
Excelsior, 134
Executive Life Insurance, 74
Exxon, 60
Far East Levingston Ship Building, 146
Federal Home Loan Mortgage, 150
First Alabama, 150
First Capital, 74
First Executive, 74, 78
First Investors, 74
First Union, 114
FMC, 128
FMR (Fidelity funds), 42, 74, 152
Ford Motor, 84, 97, 134, 147
Fort Lauderdale Sun-Sentinel, 102

G, H

J.W. Gant & Associates, 141
Gartner Group, 118
GE (NBC), 40, 140
General Dynamics, 38, 143
General Dynamics (Cessna Aircraft), 94
General Mills, 159
General Motors, 8, 84, 97, 147
Genesco, 156
Genting Behard, 146
GO, 124

THE FORBES INDEX

BY TIMOTHY DODMAN



Americans are sitting on their wallets. Consumer installment credit, which includes credit card debt and auto loans, fell for the first time since February 1989. The 0.2% drop from November to December, to $738 billion, was the largest decline since February 1987.

With additional defense spending to support the effort in the Persian Gulf, new orders for durable goods rose 3.4% in December. But this figure is still 8.7% below its level one year earlier. During 1990 the Forbes Index dropped 3.4%, the largest annual decline in nine years.

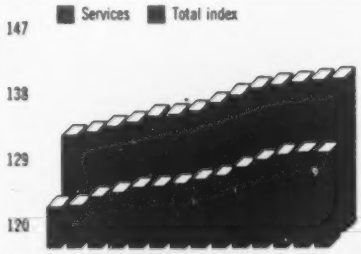
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	9.0%
Auto sales year to date vs. 1990[1]	Ward's Automotive	-29.9%
Index of leading indicators November vs. October	Dept of Commerce	-1.2%
Trade balance 12 months ended November1990	Dept of Commerce	-$102 bil
All-commodity producer price index Dec vs. 1989[2]	Dept of Labor	-0.1%
GNP 4th quarter vs. 3rd—annualized growth	Dept of Commerce	-2.1%
NBER Experimental Recession Probability Index[3]	Natl Bureau of Economic Research	9.0%

[1] U.S.-based manufacturers, excludes imports, as of 1/31/91.
[2] Wholesale goods. [3] December 1990.

Index components

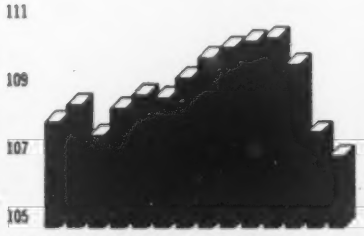
The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.

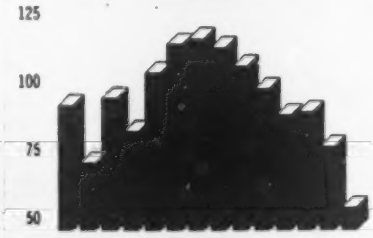


Consumer price indexes (1982-84 average = 100) all urban consumers, unadjusted (Dept. of Labor)

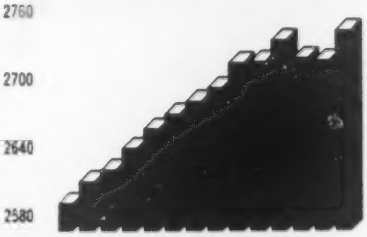
Manufacturers' new orders and inventories ($billions) seasonally adjusted (Dept. of Commerce)



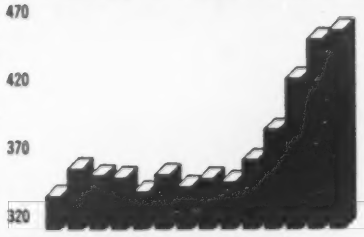
Industrial production index (1987 = 100) seasonally adjusted (Federal Reserve)



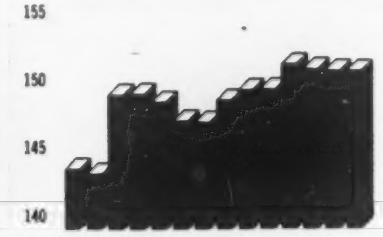
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)



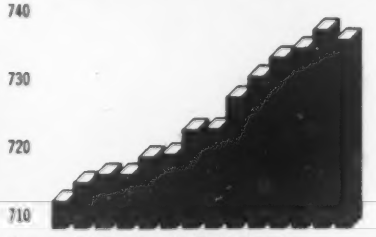
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)



New unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)



Retail sales ($billions) seasonally adjusted (Dept. of Commerce)



Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

N D J F M A M J J A S O N D
1989 1990

Forbes

France's arms merchants did a booming business with Saddam Hussein. Good thing for the French that arms don't come with money-back guarantees, because the French stuff is serving Saddam badly.

It couldn't have happened to a nicer guy

By Peter Fuhrman

IN THE SECOND WEEK of the air war in the Persian Gulf, a fleet of Anglo-French Jaguar fighter bombers, French pilots at the controls, fired laser-guided rockets to blast an Iraqi cache of French-made Exocet missiles and electronic warfare equipment in Kuwait. During the mission, the French pilots had to evade French-made radar.

Why did the French have to use the Jaguar, an older, less capable plane, when they had at their disposal far more up-to-date Mirage 2000s? Because the U.S. Marine antiaircraft kit might have mistaken the French Mirages for the Mirages flown by the Iraqi air force.

There was a certain poetic justice here. The U.S., no matter how mistakenly it had tilted toward Saddam Hussein in recent years, never sold him advanced arms. The French did. And now they are paying the price.

Damaged most irreparably perhaps is the reputation of France's armaments industry. Military reports from the Gulf suggest Saddam hasn't received good value for his money. Sighs Patrick Lemarque, an official with the French government arms procurement and export agency: "The war has not provided very good advertising for French weapons."

Advertising is the least of it. Much of the stuff is just second rate and, happily for the U.S. forces, a generation behind the best U.S. equipment.

What of the once-feared sea-skimming Exocet-Mirage combination—used devastatingly against the British in the Falklands, and against the unready U.S.S. *Stark* in 1987? There could, of course, be a lucky shot in the days ahead, but basically the Exocet is yesterday's threat. To neutralize the Exocets the Allies have gun-mounted radars and fire control systems on their ships and Awacs flying radar stations in the air. In the Gulf, there has been only one confirmed Iraqi attempt to launch Exocets. On that occasion, U.S. F-15s flown by Saudi pilots fired long-range missiles to splash two Iraqi Exocet-equipped fighter aircraft.

But in buying French, Saddam was buying expensive equipment that would never prevail against the best the U.S. has to offer. The Mirage F-1, a staple of the Iraqi air force, is an over-20-year-old design, roughly comparable to the American F-4, which went out of production a decade ago. The Mirage's $35 million price, though, puts it in the same bracket as America's frontline F-15 (around $40 million), and far above the U.S. super dogfighter, the F-16 ($25 million). Saddam got only fizzle for his francs.

This is quite a downfall for France. Until the late 1980s Dassault Aviation S.A. was probably the world's top fighter exporter. But now the bottom has dropped out of the market for Dassault's Mirage fighter.

The French are still trying. Dassault Aviation S.A., builder of the Mirage, is developing a new fighter. The plane is five years from delivery, and won't be much of an advance on General Dynamics' F-16 or McDonnell Douglas' F-18, except in its price tag—close to $100 million a copy, including development costs.

It's a similar story of inadequacy

France's large and diversified state-controlled arms industry exported aggressively, especially the Dassault Mirage fighter (above). But since the mid-1980s sales have slid (see chart), and during 1990 France failed to register a single major new weapons order, as the Gulf war killed plans to sell more planes to Iraq and Jordan.

and antiquation with the French attack helicopters and electronic countermeasure systems in the Iraqi arsenal. War is the best showcase for weapons, and American equipment is stealing the show, as even the French admit. "Countries in the [Persian Gulf] area will be equipped in the future with a lot of American materiel," sniffs French parliament member Jean-Guy Branger. "France will be left to pick up the crumbs that our American allies have not bothered to collect."

That's very unwelcome news for French armsmakers. During the 1980s France rose to become the third-largest arms exporter in the world, trailing only the U.S. and the Soviet Union. Aérospatiale's Exocet missile was the pride of the fleet, and since 1972 France has exported 2,800 of the missiles, earning about $1.5 billion. Most of those Exocet sales came in the wake of the Falklands conflict. The Exocet is past its prime. It is outclassed by sophisticated American smart bombs such as Rockwell International's GBU-15, which destroyed the manifolds the Iraqis turned on to pump crude oil into the Persian Gulf.

Why were the French so willing to sell arms to the Iraqi dictator? Money. Some 25 years ago, when Charles de Gaulle withdrew France from the NATO alliance, he ordered that France must strive for self-sufficiency in arms manufacture. With a defense budget just one-tenth the size of America's, France offset part of the arms cost through aggressive exporting. The outcome was that a lot of nasty dictators got their hands on some nasty weapons. Saddam Hussein was a particularly eager buyer.

The French arms industry, created in its modern form by de Gaulle, and today employing 300,000, is oversized for a nation with a work force of 24 million and a gross national product one-fifth the size of the U.S.' A French military attaché who served recently in Baghdad explains: "France, in selling arms, cannot afford to have many scruples." Iraq, Libya and a gang of other Third World dictatorships took over half of France's $90 billion in arms exports during the 1980s.

Even before the Gulf war showed the inadequacy of most French arms, however, the nation was reexamining its defense posture. The French defense budget is being pared as the Soviet threat in Europe recedes. If for no other reason than economics, French producers are joining other European weapons producers. An early move: Thomson-CSF is working on merging one of its missile programs with British Aerospace Plc. This, too, will lead to greater control over French weapons sales, since the British keep a tighter lid on what they export and to whom.

For the French there's a further irony in a situation that finds them risking French lives to shoot down French products: If the French sold Saddam obsolete stuff, Saddam stiffed them right back. He took delivery of $10 billion of French arms over the past ten years, but he still owes the French government $3 billion. Would you want to be an unsecured creditor of Saddam Hussein?

Judge Greene has blocked the telephone companies from the cable television business, but a higher court has told him to reconsider his reasoning. PacTel has already bet over $200 million that the barrier will fall.

Bell TV?

By Fleming Meeks

U.S. DISTRICT JUDGE Harold Greene in effect controls the future of the $175 billion U.S. telecommunications industry. Seven years after he presided over the antitrust consent decree that broke up the Bell System, and with the help of two law clerks and a secretary, Greene continues to pass judgment on a raft of telecommunications issues, large and small.

It is a monumental job that will define the U.S. economy for years to come. Yet the 68-year-old judge seems to think he can handle it, part time. Much of the time, he works through his normal caseload, which included presiding over the trial of former National Security Adviser John Poindexter. Notes Lee Cox, chief executive of PacTel Corp., the largely unregulated subsidiary of $9.7 billion (revenues) Pacific Telesis Group: "There's simply no process that allows normal, no-brainer things to get handled. Little things go through the same bureaucratic process as precedent-setting matters like cable TV."

There are, however, signs that Greene's grip on the fate of the telecommunications industry may be slipping. Right now there is growing speculation as to whether telephone companies will be allowed to insinuate themselves into the cable business by buying cable systems outside their service areas. (The Bell companies would still be prohibited, by the Cable Act of 1984, from operating cable systems in their service areas.)

Currently, the telephone companies are barred from *any* involvement in cable TV business, as it falls under the heading of "information services"; the consent decree says this market is off limits to the seven Baby Bells. But last year PacTel came up with a clever way of betting that Greene will eventually drop the information services restriction.

Chas. B. Slackman

In June PacTel, which already operates four cable systems in the U.K. and is in the process of building ten more there, effectively snared 75% of Group W's 111,500-subscriber cable system in Chicago. Under the consent decree, PacTel couldn't make the investment directly. So it worked through an intermediary, Transamerica Corp., which made the $213 million acquisition with bank financing guaranteed by PacTel. In return, PacTel got an option to buy the system for an undisclosed fixed price if Judge Greene does allow phone companies into information services.

U-turns

Company	Total subscribers (mil)	1991 cash flow[b] ($mil)	Debt ($mil)	Shares outstanding (mil)	Share price high (1989)	Share price low (10/90)	Share price recent (2/11/91)	Private mkt value per share	Price/ pvt mkt value
ATC[a]	4.6	$584	$840	109	55¼	24	39¼	58	68%
Cablevision Systems	1.6	268	2,100	22	47¼	9⅞	21⅛	50	42
Comcast	2.5	310	2,200	113	19½[c]	7⅛	15½	24	65
Tele-Communications	8.5	1,550	9,300	356	21¾	8⅛	15⅜	25	61
United Artists Ent	2.7	450	2,800	140	23¾	9¾[d]	13¾	20	69

a: 82% owned by Time Warner. b: Estimated; before interest and after adjusting for corporate overhead. c: Adjusted for 3-2 split. d: November 1990.
Sources: company reports; Kenneth Goldman, Hanifen, Imhoff Inc.

After peaking in 1989, cable stocks collapsed, buffeted by fears of reregulation and too much debt. Since October they have rebounded sharply as the threat of reregulation has receded and interest rates have fallen—and perhaps because the market believes Judge Greene will allow the regional Bell telephone companies to invest in cable. Yet despite the rebound, the companies trade at big discounts to latest estimates of their private market values.

Chas. B. Slackman

PacTel has reason to think the judge will be obliged to open the door, or at least a window, to the cable business. Last April the U.S. Court of Appeals for the District of Columbia agreed with the seven Baby Bells that Greene had used an overly restrictive standard when he upheld the information services ban four years ago. The appeals court instructed Greene to reconsider the issue using a more lenient standard. Greene is expected to issue his reconsidered ruling as early as this spring.

If Greene does let phone companies move into cable, look for cable values to rise again. Other phone companies—notably US West, BellSouth and Southwestern Bell, which have been building and buying cable systems in Europe—have been pawing the ground at home and may begin bidding for U.S. cable companies.

Whether or not the stock market has already started taking this possibility into account, cable stocks have rebounded impressively after taking a beating last year, when they were threatened with reregulation. Cablevision's market value has doubled since October, and Tele-Communications is up 80%. Even so, cable stocks are trading well below their peak prices and at big discounts to their private market values *(see table)*.

In the third quarter of last year Fidelity Investments' various funds upped their combined stake in Tele-Communications Inc. to 8 million shares from 3 million shares. Fidelity's broadcast and cable analyst Fergus Shiel cites fundamental factors—increasing penetration and rising revenue-and-cash-flow-per-subscriber—for his bullish stance. But he adds that a favorable ruling from Judge Greene would be "a kicker" that would exert further upward pressure on the cable companies' private and public market valuations.

Will Judge Greene open up cable to the Bell companies? PacTel is betting with its pocketbook that he will. But other Baby Bells say they are less certain. A US West spokesman says his company has no plan of action in place for a lifting of the information services restriction. "We've speculated on what the judge might do in the past," he explains, "and we haven't been right yet."

Barcelona's young Javier de la Rosa made his fortune helping the Kuwaitis invest their petrodollars. Can he do as well now that he is branching out on his own?

The new face of Spain

By John Marcom Jr.

SPAIN WAS DESTINATION number one for savvy foreign money in the mid-Eighties. The country's industrial base doesn't yet have much to show for the investment, but a number of individual Spaniards have done very nicely indeed. Probably none has fared better than Javier de la Rosa.

About six years ago de la Rosa, now 43, teamed up with the Kuwait Investment Office, the discreet London-based agency empowered to invest much of the Gulf emirate's oil revenue. The Kuwaitis, eager to pour billions of dollars into Spain but sensitive to public opinion, used de la Rosa

Michele Clavel

Javier de la Rosa

Member in good standing of Spain's new business establishment in Madrid.

THE FORBES WALL STREET REVIEW

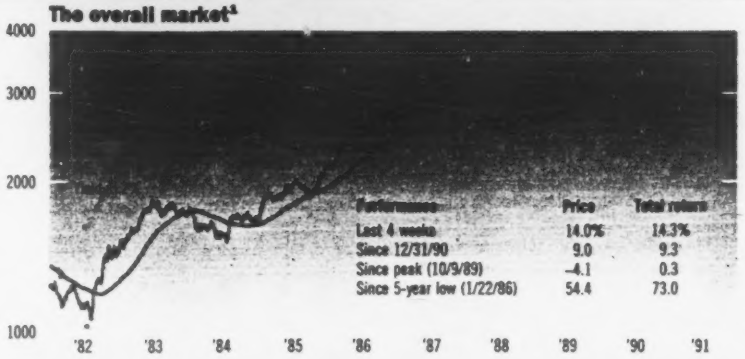
BY ERIC S. HARDY

Technology stocks are becoming attractive again, says James C. Mendelson, a computer and software analyst at Morgan Stanley. The stock of Oracle Systems, the world's largest maker of database management systems, has recently gained 50%. Priced at $10 a share, Oracle is nonetheless at little more than a third of its historic high. "This stock is still speculative, but it has the potential to come back strongly," says Mendelson, who cites the company's leading role in so-called relational database software. Mendelson also likes BMC Software and Goal Systems International. BMC Software, a Texas-based developer of IBM-compatible mainframe software, has averaged 50% sales growth over the past few years, carries virtually no debt and has strong cash flow. Goal Systems International, which also develops IBM-compatible mainframe software, has grown through acquisitions.

After a flurry of upside activity, defense stocks seem to be waning again. A recent 13% drop in Grumman drove it below its prewar level. And General Dynamics, with a 7% loss, gave back part of the gains it scored right after the outbreak of fighting in the Persian Gulf.

But most stocks rallied. The Dow industrials are now up more than 300 points, or 12%, since the shooting began on Jan. 16. The Nasdaq gained more than 19%.

The overall market[1]



The best performing stocks

Company	Price	2-week change	P/E	Avg vol (thou)[2]	Rel Vol[3]
Kemper Corp	30⅛	41	NM	2,149	1.5
Stone Container	15¼	37	10	4,669	2.4

The worst performing stocks

Company	Price	2-week change	P/E	Avg vol (thou)[2]	Rel Vol[3]
Chrysler	12	-8	41	12,365	1.8
Eli Lilly	73⅞	-8	20	10,528	1.5

Closeup on the market

Index or investment	Price or rate	2-week change
Wilshire index 6,000 stocks, capitalization weighted	3,379.5	7.4%
Wilshire index 6,000 stocks, equal weighted	19.8	14.7
Dow Jones industrials 30 stocks, divisor-adjusted price average	2,810.6	6.3
S&P 500 Capitalization weighted cross section, major stocks	356.5	6.5
NYSE Capitalization weighted, all listed common stocks	194.7	6.6
Amex Capitalization weighted total return: stocks, warrants	334.7	9.1
Nasdaq Capitalization weighted, all issues except warrants	435.0	11.2
Amex international market index Capitalization weighted, 50 largest ADRs	317.4	6.5

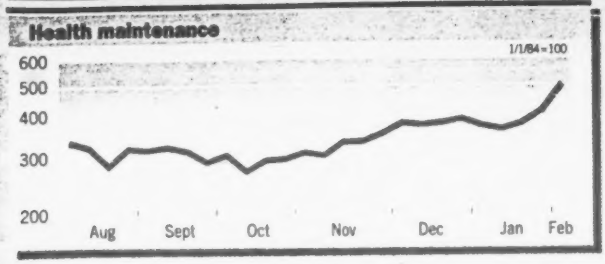
Index or investment	Price or rate	2-week change
Europe, Australia, New Zealand and Far East[4] (EAFE) a dollar denominated capitalization weighted index	858.60	7.4%
Institutional[5] Approximately 200 stocks with high institutional ownership	112.14	10.4
Individual[5] Approximately 200 stocks with low institutional ownership	93.60	12.9
Russell 200 index 2000 small market value stocks, capitalization weighted	151.08	11.9
Gold[6] (composite quote of 6 major dealers)	$367.60	-1.3
Yen[6] (per $U.S.)	128.60	-2.8
Commodity index[6] (CRB futures index, 1967=100)	212.67	-0.9
Oil[6] (W Texas Intermediate)	$21.20	-16.2
T bills[5] (90 days)	5.90%	-21.0 basis points[7]
Broker loan rate[6]	9.00%	Unchanged

Note: All data for periods ending 2/7/91. Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. Stocks listed above have market capitalization of $500 million or more. [1]Capitalization weighted, prepared by Wilshire Associates, Santa Monica, Calif. [2]Average daily volume over a 2-week period. [3]Average daily volume over the last 2 weeks, divided by the average daily volume during the preceding 3 months. [4]Morgan Stanley Capital international perspective. [5]For period ending 2/8/91. A. Arbel, Cornell University, using Ford Database from Ford Investor Services. [6]Knight-Ridder Financial Information. [7]A basis point is equal to one-hundredth of a percentage point. NM: Not meaningful.

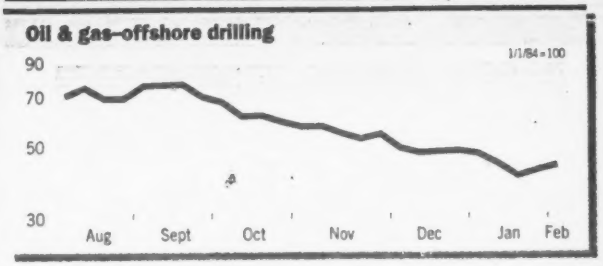
INDUSTRY REVIEW

BY GILBERT STEEDLEY

Best industry over the last 6 months



Worst industry over the last 6 months



"Health care stocks are a defensive haven for investors, and their earning momentum has little risk of derailing," says Dorothy E. Ryan, a senior analyst at California-based Robertson Stephens & Co. That's why the sector's stocks were strong even before the rally, she says.

Several computer groups also rose sharply over the last six months. "These stocks were probably helped by the decline in interest rates and a perception that they had been oversold," says Craig Krapf, analyst at Edward D. Jones & Co. Apple Computer, aided by a 33% increase in December quarter earnings, is near its alltime high.

Energy stocks had a sharp runup immediately following Iraq's invasion of Kuwait, but then lost ground. The worst-performing group for the last six months was offshore drilling. The market value of Energy Service, a contract driller, was cut nearly in half, to $221 million.

Leading industries

Health maintenance

Company	Recent price	6-month price change	Relative rank strength	EPS	P/E
US HealthCare	36¾	103%	99	93	33
United Healthcare	29½	76	98	90	26
Foundation Health	18½	64	94	85	11
PacifiCare Health Systems	23	26	90	96	16
FHP International	16¼	6	79	95	13

Computers–mini & micro

Company	Recent price	6-month price change	Relative rank strength	EPS	P/E
Apple Computer	55¼	35%	95	82	14
Compaq Computer	69¾	28	94	98	14
Digital Equipment	70½	–2	74	13	NM
Hewlett-Packard	37¾	–6	71	56	12
Sun Microsystems	29	–6	92	98	19

Electric components & semiconductors

Company	Recent price	6-month price change	Relative rank strength	EPS	P/E
Advanced Micro Devices	8⅛	22%	94	22	NM
Intel	47	20	86	98	15
Texas Instruments	38	18	86	20	NM
National Semiconductor	6¼	12	87	25	NM
LSI Logic	8¼	–27	72	34	NM

Lagging industries

Oil & gas–offshore drilling

Company	Recent price	6-month price change	Relative rank strength	EPS	P/E
Energy Service	2⅜	–49%	16	16	NM
Chiles Offshore	7	–47	23	79	NM
Rowan Companies	8⅞	–36	16	69	NM
Global Marine	3⅝	–29	25	69	NM
Tidewater	14¾	–25	39	85	18

Oil & gas—exploration & production

Company	Recent price	6-month price change	Relative rank strength	EPS	P/E
Oryx Energy	33½	–36%	20	94	19
Enron Oil & Gas	17¾	–31	17	69	48
Anadarko Petroleum	26¼	–29	20	98	25
Union Texas Petroleum	15½	–27	21	78	19
Burlington Resources	36¼	–21	31	95	25

Natural gas—pipelines

Company	Recent price	6-month price change	Relative rank strength	EPS	P/E
Sonat	41⅛	–22%	28	74	18
Coastal	29	–15	31	81	15
Columbia Gas System	43¾	–8	35	71	17
Enron Corp	50¾	–8	37	94	11
Interhome Energy	40¼	–4	53	76	12

Industries are ranked from 1 (highest) to 197 (lowest) based on the equal-weighted price performance of the companies within the industry group. Industry performance is based on 6-month price changes with the most recent 3-month results weighted 70%. Relative strength is a stock's daily price change over the last 12 months. Relative EPS measures a company's earnings-per-share growth in the last 2 quarters, the last 5 years and the stability of that growth. For both measurements, stocks are compared with all other stocks and ranked on a scale of 0 to 99, with 99 the highest. NM: Not meaningful. All data for periods ending 2/1/91. Source: Investor's Daily, Los Angeles, Calif.

What is the stock market rally saying? Economic recovery ahead.

The "R" word

BY CHARLES E. BABIN

Charles E. Babin is managing director of BRS Capital Management, Inc., an investment management firm, in Boston.

IT'S OFFICIAL: 1990's economy was abysmal. According to preliminary figures, real GNP growth turned sharply negative in the final quarter (–2.1% annual rate). The calendar-year average result was anemic, too. The economy eked out an unimpressive 0.9% gain—its poorest showing since 1982. Equity returns suffered as well, with the S&P's total return declining 2.9%—the worst performance since 1974, and the Composite's first negative year since 1981.

What's more, if the experts are right, we are not out of the woods. According to a year-end survey of some 50 of the nation's top economists, conducted by Blue Chip Economic Indicators, 1991's real GNP growth will slump to –0.1%.

What about those gloomy economic forecasts? The fact is, the inability of economists to predict the economy—especially at critical turning points—has the profession awash in pink slips (FORBES, *Jan. 21*). So the marketplace seems to be saying something about the reliability of their forecasts.

There are other portents of a turnaround in the making. Aside from the stock market's dramatic recovery, credit market behavior, traditionally an early-warning indicator of impending shifts in the real economy, has witnessed a substantial decline in interest rates over the past two years. From a high of 9.1% (March 1989), three-month Treasury bills declined to 6.05% by mid-January 1991. Low interest rates do not guarantee a robust economy. But given the statistical relationship between interest rates and GNP, the chance of this year's consensus forecast proving out is less than 5%. In fact, odds are better than 3-to-1 that 1991's real GNP growth will exceed last year's pace.

For equity investors, now is the time to identify sectors with a demonstrated ability to beat the market during recovery periods. Which are they?

Over the past two decades there have been four occasions when the economy rebounded from negative-growth years. One of these (1981) was peculiar in that it was sandwiched between two recession years. While it was a tough year for stocks generally, it does satisfy this recovery-year criterion; I have, therefore, included 1981 in my analysis.

Standard & Poor's organizes its Composite Index into roughly 90 nonredundant industry groups. Of these, some 67 have at least 20 years of historical price data. Incredibly, according to S&P's "Security Price Index Record," only 23 of these sub-set indexes posted gains in each of the four recovery periods.

But, the big question is: Which sectors outperformed the overall market during these bust-to-boom cycles?

As shown in the table, only six S&P industries appreciated, relative to the S&P benchmark, in each of the four recovery years. Let's take a portfolio consisting of all 31 issues S&P assigns to these groups and with equal industry weights. Led by leisure time, heavy-duty trucks and parts, and truckers, such a portfolio would have eclipsed the Composite's return by a wide margin every time. And if the exceptional case proves the rule, it's interesting that this portfolio would have gained more than 14% during 1981's bear market.

Given S&P's weighting system, a handful of stocks make up the lion's share of these six select indexes. So it may be possible to play the economic rebound using the dominant issue from each. These companies, all NYSE-listed issues save one, are: Eaton Corp, Brunswick Corp., Dun & Bradstreet, Walgreen Co., Roadway Services (o-t-c) and Torchmark Corp.

If nothing else, 1990's economic collapse demonstrated that the business cycle lives. While we may be mired in recession currently, now is not the time to sour on equities. The economic upturn—whenever it materializes—likely will find the experts groping for another "R" word: recovery. The trouble is, by the time they adopt it, the opportunity to pocket excess returns over the Composite may have passed.

Stock watch

S&P industry group	Recovery-year appreciation 1983	1981	1976	1971	average
Financial (life insurance cos)	26.2%	5.4%	38.7%	24.2%	23.6%
Heavy-duty trucks & parts	52.8	4.4	71.3	34.7	40.8
Leisure time	56.4	26.4	39.7	55.8	44.6
Publishing	21.8	11.6	31.1	15.0	19.9
Retail stores (drug)	29.2	16.4	25.8	76.8	37.1
Transportation (truckers)	38.2	19.8	20.3	81.8	40.0
Average	37.4	14.0	37.8	48.1	34.3
S&P Composite	17.3	–9.7	19.2	10.8	9.4

Is an economic rebound ahead? If so, investors will look for recovery plays. History shows that only six S&P industry groups outperformed the S&P Composite during previous bust-to-boom cycles.